

## **EXHIBIT 42**

# CHUBB®

## Chubb Limited Annual Report 2016

U.S. DIST COURT – MN  
PLAINTIFF EXHIBIT

**P-0958**

Case No. 16-cv-1054-DTS

FICO0056557

## To My Fellow Shareholders

2016 was a year of great accomplishment for Chubb. We completed the largest merger in insurance history and integrated two complementary insurance organizations, ACE Limited and The Chubb Corporation, transforming ourselves into the highest quality and largest publicly traded property and casualty insurer in the world. In doing so, we furthered our long-term strategic objectives to grow and diversify our business by adding to our product, talent and distribution capabilities, which, managed right, will generate substantial shareholder value well into the future. At the same time, we didn't take our eye off the ball and continued to run our business with discipline and at the high service standards our customers and distribution partners expect of us. We produced strong financial results as measured by earnings – in fact, record operating EPS – P&C combined ratio, book and tangible book value growth, and operating ROE. We achieved all of our first-year merger-related financial goals, and we set the course to harness the power of the organization globally. In spite of an unpredictable global environment and a difficult insurance market, we concluded the year with optimism about '17 and beyond – this organization is energized. We're in a long-term business and we are builders, and as far as I'm concerned, in many ways, we're just getting started.

Let me start with a quick snapshot of our company today. Chubb is the world's largest P&C insurer as measured by market cap of over \$64 billion at the time of this writing. We write gross premiums of approximately \$35 billion, 65% of which come from commercial property and casualty (P&C) lines with 35% from consumer

lines. We have an exceptionally broad product range and are global leaders in many lines of business such as financial lines, including directors and officers (D&O) and errors and omissions (E&O) coverage for companies; risk management-related primary casualty products and services designed to help large insureds manage their workers' compensation, general liability and automobile liability risks; personal accident and supplemental health insurance (A&H) for consumers; and, in the United States, personal lines for high net worth customers and crop insurance for farmers. We serve businesses of all sizes, from industrial commercial to mid-market to small companies, with a range of traditional and specialty coverages. For individuals and families, our consumer-focused offerings range from property, liability-related and specialty personal lines coverage to accident and health plans and life insurance. We are a truly global insurer – one of only a few in the world – with substantial local capabilities and expertise in 54 countries. About 63% of our business is based in the U.S., up from about 50% pre-merger. Our products and services are distributed through brokers, independent agents, exclusive agents and various forms of direct marketing. With \$62 billion in total capital and \$48 billion in equity, our balance sheet is backed by ratings of AA from S&P and A++ from A.M. Best.

Last year our company faced a challenging external operating environment alongside the significant scope of our merger-related integration activities. Global economic growth was tepid as emerging and natural resources-based economies continued to feel the impact of the collapse in commodity prices and China's slowdown. For most of the year, the dollar strengthened from a flight to safety while interest rates remained at

the digitization of all things business, those in the first class that are heads-up, in my judgment, will be winners.

Our company is well positioned to achieve growth even in the face of today's challenging P&C market conditions. Over 60% of our revenue comes from business lines that have moderate-to-significant growth opportunity in spite of current market conditions and include many of our consumer businesses and those serving middle market and small commercial customers globally. These businesses, while not immune, are less impacted to varying degrees by the P&C insurance cycle. Our large commercial and wholesale market P&C businesses globally, representing about 40% of our revenue, enjoy a flight-to-quality and reliability advantage as they provide a breadth of offering, superior service and know-how, underwriting reputation, local operations around the globe, and a combination of quality, consistency and stability few other insurers can – and this provides additional balance against market conditions. Our diversification by product, territory and customer not only presents an opportunity for above-average growth but also better preserves margins throughout the P&C cycle for superior returns with less volatility. However, we will trade revenue growth to preserve a reasonable underwriting margin in a heartbeat.

There's plenty of room for long-term growth in our company considering the P&C industry is expected to grow from \$2 trillion to \$3.7 trillion by 2025. In fact, the top 10 insurers in the world combined have only about 20% market share, so insurance is a very fragmented industry. With less than \$40 billion in gross premiums, Chubb represents about 1.5% of the world's total global P&C market, so we have considerable scope to capitalize on the industry's growth given our global footprint and the fact that we have just 11 countries with \$400 million of premium or greater. Selective, thoughtful growth over time is the key – something all of us in management are focused on and, frankly, enjoy spending our time pursuing. And by the way, this company is led by underwriters – all of us are experienced and knowledgeable about the basic business we are in.

To drive that growth, we have many existing and new initiatives underway in both our commercial and consumer businesses. In our commercial P&C business globally, for example, we see opportunity to grow our presence in the middle market and small commercial segments. An \$8.6 billion business today, our middle market and small commercial operation is a powerful combination of complementary strengths from two companies – brand, experience, know-how and data in the core middle market, including products, agency distribution and U.S. geographic presence, paired with specialty products, global geographic presence, deep local insights and strong international operating experience, and an appetite to invest in technology and other areas.

“Our diversification by product, territory and customer not only provides an opportunity for above-average growth but also better preserves margins throughout the P&C cycle for superior returns with less volatility.”



and are itching to grow, and there's some medium and smaller companies that simply have nowhere to go – they are like being in the desert with your canteen running out of water. Where there's stress there's opportunity, and so more capital is attracted to new and existing run-off companies that specialize in buying legacy liabilities of life and non-life insurance companies. Solvency II and other regulatory changes, low interest rates and difficult market conditions that generate trash from poor underwriting are creating opportunity for those run-off company investors who manage run-off liabilities well, which is a skill, and seek assets for investment. When an insurer sells troubled reserve liabilities to a run-off specialist, it isn't often a good day for policyholders. Run-off specialists are in the business of settling outstanding claims for cents on the dollar and doing so slowly while they sit on the cash and earn investment income. I expect more of this activity in the years ahead.

By the way, another sign of a soft insurance market is the abusive behavior on the part of some brokers who enrich themselves at the expense of both their customers and underwriters. Cloaked in the mantra

of “customer best interest” or “treating customers fairly,” they seek the cheapest price and broadest coverage at commission terms that by any measure are excessive. Forcing underwriters to succumb to the lowest common denominator is hardly in the customer's, or industry's, best interest. These predatory behaviors, which have shown up around the world, and in London in particular, are simply unsustainable from an underwriting perspective and will come back to haunt these brokers: there will be customer and regulator backlash, or worse. Remember, distribution can be disintermediated.

#### **Domestic economic changes afoot in the U.S.**

Turning to the world at large and beginning with the domestic front in the United States, the power and influence of our country depends first on our own economic health. As noted earlier, I am cautiously optimistic. I endorse many of the

new administration's ideas, particularly around deregulation for business, tax reform, and infrastructure and military spending. I am encouraged that the focus is on growth through fiscal rather than monetary policies that have run their course. These pro-growth policies will be good for the country if implemented in a way that does not cause budget deficits to rise over any period of time – they could unleash a period of renewed growth, vitality and strength for our nation. I am concerned that there is no talk about entitlement reform, other than what may or may not happen with the Affordable Care Act, because entitlement spending is a growing and out-of-control threat to our nation's fiscal health. We must come to grips with and address it. We constantly consider where to find funds for important priorities such as infrastructure, education and the military. Yet, entitlements and debt service absorb about 70% of our budget and are expected to grow. In my judgment, we need to look to '18 and beyond before we see economic tailwinds, other than those produced by so-called animal spirits, given bills need to be designed, debated, passed by Congress and implemented.

#### **Premium Distribution by Product**

2016 Net Premiums Written\*

\* Inclusive of the first 14 days of January prior to the acquisition close

